REPORT OF

ASSOCIATION FINANCIAL EXAMINATION

SAFECO NATIONAL INSURANCE COMPANY

AS OF
DECEMBER 31, 2000

STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

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Seattle, Washington
December 14, 2001

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Commonwealth of Virginia
Chairman, (Ex 4) Financial Condition Subcommittee, NAIC

Honorable Sally McCarty, Commissioner
Indiana Department of Insurance
Secretary, Midwestern Zone, NAIC

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Lady and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

SAFECO National Insurance Company

also referred to as the "Company" or as "SNIC." The Company's administrative office is located at 4333 Brooklyn Ave, Northeast, Seattle, Washington 98185, telephone number (206) 545-5000. This examination began on July 9, 2001, and concluded on December 14, 2001.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of SAFECO National Insurance Company was made as of December 31, 1995, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covers the period from January 1, 1996, to December 31, 2000, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC, with no other zones participating. This examination was done in conjunction with the examination that was conducted by the state of Washington's Office of Insurance Commissioner of SAFECO Insurance Company of America, General Insurance Company of America, First National Insurance Company of America and SAFECO Surplus Lines Insurance Company.

This examination also included material transactions and or events occurring subsequent to the examination date of December 31, 2000, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The examiners relied upon information and workpapers supplied by the parent company's independent auditors, Ernst & Young, LLP, of Seattle, Washington for the statutory audit covering the period from January 1, 2000, to December 31, 2000. This information included, but was not limited to, attorney letters, loss reserve analyses and internal control narratives.

Comments – Previous Examination

Listed below are the comments, recommendations and notes of the previous examination report, dated as of December 31, 1995, and the subsequent response or action taken by the Company.

General

Comment/Recommendation: "Although the Company has always elected or appointed nine members of the Board of Directors, the most current amended and restated Bylaws provide for only five to ten directors. RSMo. Section 379.035 (5) (Stock insurers: articles of incorporation) requires that the number be no less than nine or more than twenty-five. It is recommended that the Bylaws be amended to conform with the Missouri statutes. The Company has stated it has agreed to amend such provisions a the next board meeting."

Company's Response: "The Bylaws were amended on November 5, 1996 to eliminate this inconsistency."

Current Findings: The Bylaws was amended on November 5, 1996, for the purpose of complying with RSMo. Section 379.035 (5), (Stock insurers: articles of incorporation).

Conflict of Interest

Comment/Recommendation: "After 1994, the Company discontinued requiring that disclosure statements be signed by directors, officers and key employees. Currently, the Company accepts electronic mail disclosure (negative confirmation only) for those persons and all other employees. It is recommended that at least annually a disclosure statement be signed and dated by the directors, officers and key employees. This could be a joint-intercompany statement and would have to be resubmitted only when a person's position or office changes or a possible conflict was reported"

Company's Response: "Beginning in 1995 the solicitation of conflict of interest disclosures began to be directed to all employees of the corporation. Since it was not practical from an administrative standpoint to request signed disclosure statements from every employee, it was decided that communication of the policy statement and disclosures by employees would be handled by email, but would occur annually instead of once every four years. The current procedures in this area have been strengthened and made more comprehensive by broadening the population to which the communications are directed, and increasing the frequency with which they occur. Since a specific Missouri statute describing an insurance company's regulatory responsibilities regarding procedures for soliciting conflict of interest disclosures could not be located, we will continue to use the procedures currently in place."

Current Findings: Only directors, officers and key employees of the Company and its parent organization, SAFECO Corporation, are required to sign conflict of interest statements on an annual basis. A review of the conflict of interest statements for the period under examination indicated that several officers and members of the board of directors consistently failed to complete and sign conflict of interest statements from 1996 through 1999. The Company is once again directed to develop adequate procedures and controls to ensure that all directors, officers and key employees complete and sign on an annual basis a conflict of interest disclosure statement.

Affiliated Companies

Comment/Recommendation: "The one-page expense sharing agreement has been filed with the Missouri Department of Insurance as required by RSMo. Section 382.195.(4) (Transactions within a holding company system). The written intercompany procedures for underwriting, cash management (which includes pooling of cash) and lending and borrowing agreements have not been filed. Since these documents are related to the expense sharing agreement, it is recommended that the written intercompany procedures for underwriting and cash management agreements be filed as an attachment to the expense agreement. The separate actual lending and borrowing agreements should also be filed, not just summarized in the holding company monthly Form B filings."

Company's Response: "None of the documents mentioned in the Examination Report fall under the filing requirements of 20 CSR 200-111.300. None of these documents meet the definition of 'management contracts' according to RSMo. 375.164. The written intercompany procedures for cash management and settlement between the companies are not legally binding agreements that impose any contractual obligations on any of the companies. Rather, they are documentation of internal procedures and intended to be used strictly for educational and reference purposes. They describe the means by which the companies comply with their obligations under existing contracts and agreements and do not create any additional obligations. As such, we believe these documents do not need any of the disclosure or filing requirements contained in the Missouri laws and regulations and that it would therefore be inappropriate to file them with the Missouri Department."

Current Findings: The written intercompany procedures for cash management and settlement between the companies are not legal binding agreements that impose contractual obligations on any of the companies. Therefore, these procedures were only reviewed and tested as part of the current full scope association financial examination of the Company. The actual Amended Intercompany Short-Term Borrowing Agreement (formerly known as the Inter-Company Short-Term Lending Agreement) should not be filed with the Missouri Department of Insurance. The Short-Term Borrowing Agreement entered into with SAFECO Credit Company, Inc. was terminated in March of 2001, thereby negating any previous applicable filing requirements.

Cash

Comment/Recommendation: "Funds that are physically held by SAFECO Insurance Company of America (SICA) and invested in overnight investments along with the Invested Funds of the other SAFECO property and casualty companies are not properly reflect on the books of the individual company. It is recommended that SAFECO National's portion of these funds be invested in acceptable assets which are directly owned by the Company."

Company's Response: "We agree that the accounting treatment used to record the overnight investment of funds does not accurately reflect the fact that these funds are held at the depository in the name of SAFECO Insurance Company of America (SAFECO). Since the intercompany allocation of SAFECO's current month cash receipts and disbursements is settled after month-end, we will change our accounting treatment to reflect the funds as physically held by SAFECO, with corresponding intercompany payables and receivables recorded between the appropriate companies. If this treatment had been used at December 31, 1995, SAFECO National's balance sheet would have reflected an admitted asset for the intercompany receivable from SAFECO instead of the short-term investment balance that was reported."

Current Findings: The current accounting treatment used by the Company to record the overnight investment of funds in a depository account held in the name of SAFECO Insurance Company of America appears appropriate under statutory accounting principles and practices. Corresponding intercompany payables and receivables entries are made to record the overnight investment of funds that are received from affiliated entities and placed in depository account held by SAFECO Insurance Company of America.

HISTORY

General

SAFECO National Insurance Company was incorporated on July 10, 1972, and commenced business on November 1, 1972, as a stock property and casualty insurance company pursuant to RSMo. Chapter 379, (Insurance Other Than Life). On July 1, 1980, SNIC was acquired by SAFECO Corporation through a stock dividend from its subsidiary, SAFECO Insurance Company of America.

Capital Stock

The Company is authorized to issue 20,000 shares of $125 par value common stock. As of December 31, 2000, all authorized shares of common stock were issued and outstanding for a common capital stock balance of $2,500,000. The Company's parent organization, SAFECO Corporation, owns all of the outstanding common stock shares.

Dividends

Total cash dividend declared and paid to policyholders and the sole shareholder since the prior examination, were as follows:

	Policyholders	Stockholders
Dividends declared from 1991 to 1995	$ -	$ 21,000,000
1996	324,419	5,000,000
1997	345,386	4,500,000
1998	285,018	5,500,000
1999	212,623	7,000,000
2000	189,084	6,000,000
Dividends declared from 1991 to 2000	$ 1,356,530	$ 49,000,000

Management

Pursuant to Article II, Section 1 of the Bylaws, the business and affairs of the Company shall be managed by a Board of Directors which shall consist of not less than nine (9) and no more than twelve (12) directors duly elected by the stockholder at each annual meeting. Each director elected shall serve and hold office for a tem of one year. The directors elected and serving at December 31, 2000, were as follows:

Name and Address	Business Affiliation
Donald S. Chapman	Senior Vice President SAFECO National Insurance Company
Boh A. Dickey*	President SAFECO National Insurance Company
Roger H. Eigsti*	Chairman of the Board of Directors SAFECO National Insurance Company

Dale E. Lauer	Senior Vice President SAFECO National Insurance Company
William T. Lebo	Executive Vice President SAFECO National Insurance Company
Rodney A. Pierson	Senior Vice President & Secretary SAFECO National Insurance Company
James W. Ruddy	Senior Vice President SAFECO Corporation
Ronald L. Spaulding	Vice President SAFECO National Insurance Company
Randall H. Talbot	President SAFECO Life Insurance Company

*Indicates individual resigned or retired subsequent to December 31, 2000.

In each of the years under examination, the Board of Directors established a finance committee for the primary purpose of managing the finances and investment affairs of the Company. The members elected and serving on the finance committee as of December 31, 2000, were as follows: Roger H. Eigsti, Boh A. Dickey, Rodney A. Pierson and Ronald L. Spaulding.

Pursuant to Article V, Section 1 of the Bylaws, the officers of the Company shall consist of a Chairman of the Board of Directors, a President, one or more Vice Presidents, a Secretary, one or more Assistant Secretaries, a Treasurer, and one or more

Assistant Treasurer. The primary executive officers elected and serving as of December 31, 2000, were as follows:

Name	Office
Roger H. Eigsti*	Chairman of the Board of Directors
Boh A. Dickey*	President
William T. Lebo	Executive Vice President
Richard R. Berls	Senior Vice President
Don S. Chapman	Senior Vice President
Dale E. Lauer	Senior Vice President
Michael C. Peters	Senior Vice President
Rod A. Pierson	Senior Vice President and Secretary
James A. Schmidt	Senior Vice President
Robert C. Taylor	Senior Vice President
William E. Thomas	Senior Vice President
Stephen C. Bauer	Vice President and Treasurer

*Indicates individual resigned or retired subsequent to December 31, 2000. On February 8, 2001, Michael S. McGavick was appointed President and elected Chairman of the Board of Directors of the Company.

Conflict of Interest

It has been the practice of the Company to require all directors, officers and key employees of the Company and its parent organization, SAFECO Corporation, to sign conflict of interest statements annually. A review of the conflict of interest statements for the period under examination indicated that several officers and members of the board of directors consistently failed to complete and sign conflict of interest statements from 1996 through 1999. The Company is directed to develop adequate procedures and controls to ensure that all directors, officers and key employees complete and sign on an annual basis a conflict of interest disclosure statement.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company for the period under examination. The Articles of Incorporation were not amended during the period under examination. The Bylaws were amended on November 5, 1996, for the purpose of complying with RSMo. Section 379.035 (5), (Stock insurers: articles of incorporation).

The minutes associated with the annual and special meetings of the Company's shareholder, Board of Directors and Finance Committee were also reviewed for the period under examination and appear to properly reflect and approve all material corporate transactions and events of the Company.

The Financial Examination Report of the Missouri Department of Insurance as of December 31, 1995, was reviewed and accepted by all members of the Company's Board of Directors by September 4, 1997.

Acquisitions, Mergers and Major Corporate Events

On October 1, 1997, the Company's parent organization, SAFECO Corporation, acquired the American States Insurance Companies at a purchase price of $2.8 billion. Prior to this acquisition, the SAFECO and American States property and casualty insurance companies participated in separate intercompany reinsurance arrangements, whereby the asset and liability items related to the underwriting activities of each of the company's net pooled business was shared between their respective affiliated pooling participants.

The purchase of the American States Insurance Companies by SAFECO Corporation created a need to revise and combine each company's intercompany reinsurance agreement. Thus, during the third quarter of the year 1998, the SAFECO and American States property and casualty insurance companies applied for and received permission from their respective states of domicile to enter into a combined intercompany reinsurance agreement, effective retroactively to January 1, 1998. Additional information regarding the Company's current reinsurance program is detailed in the "Reinsurance" section of this examination report.

Surplus Debentures

There were no surplus debentures issued or outstanding for the period under examination.

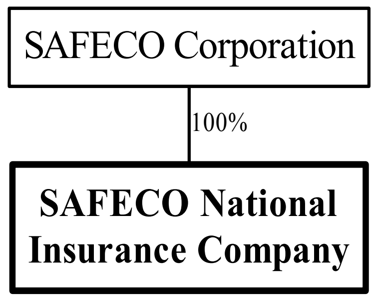
AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

As of December 31, 2000, SAFECO National Insurance Company was a member of an Insurance Holding Company System as defined by RSMo. Section 382.010, (Definitions). During the period under examination, Form B and Form C Holding Company Registration Statements were filed by General Insurance Company of America, an affiliated entity, on behalf of the Company, with each statement maintaining that SAFECO Corporation is the ultimate controlling entity. SAFECO Corporation's stock is publicly traded on the NASDAQ National Market System with no one stockholder owning 10 percent or more.

Organizational Chart

The following organizational chart partially depicts the holding company system of the Company as of December 31, 2000:



Intercompany Transactions

During the period under examination, various transactions between the Company and affiliated insurers and non-insurers within the SAFECO Corporation's holding company system occurred pursuant to the following intercompany agreements:

1. Type: Short-Term Borrowing Agreement

   Parties: SAFECO National Insurance Company and SAFECO Credit Company, Inc.

   Effective: October 27, 1997 through March 12, 2001

   Terms: Under this agreement SAFECO National Insurance Company agrees to lend funds from time to time to SAFECO Credit Company, Inc. In exchange for each loan made under this agreement, SAFECO Credit Company, Inc. agrees to bear and settle on a monthly basis interest at the daily rate equivalent to the previous day's thirty day financial commercial paper rate as published by the Board of Governors of the Federal Reserve System in Statistical Release H.15(519).

2. Type: Amended Intercompany Short-Term Borrowing Agreement

Prior to November 15, 2000, this agreement was entitled "Inter-Company Short-Term Lending Agreement" with an effective date of January 1, 1984.

Parties: American Economy Insurance Company, American States Insurance Company, American States Insurance Company of Texas, American States Life Insurance Company, American States Preferred Insurance Company, Emerald City Insurance Agency, Inc., F.B. Beattie & Company, Inc., First National Insurance Company of America, General America Corporation, General Insurance Company of America, SAFECO eCommerce, Inc., SAFECO Financial Products, Inc., SAFECO Insurance Company of America, SAFECO Insurance Company of Oregon, SAFECO Insurance Company of Pennsylvania, **SAFECO National Insurance Company**, SAFECO Surplus Lines Insurance Company, SAFECO Life Insurance Company, SAFECO National Life Insurance Company, SAFECO Insurance Company of Illinois and Insurance Company of Illinois.

Effective: November 15, 2000

Terms: Each undersigned party to this agreement agrees to lend funds in the amount requested to any other party to this agreement. The amount of each loan requested is subject to the limitations imposed by the laws and regulations of each company's respective domiciled state government body. The amount of each loan made by a lending company is also subject to interest computed at the daily rate equivalent to the weighted average daily rate earned on overnight investments by SAFECO Corporation and its affiliates.

3. Type: Agreement of Allocation of Payment of Federal Income Taxes

Parties: SAFECO Insurance Company of American, General Insurance Company of America, First National Insurance Company of America, **SAFECO National Insurance Company**, SAFECO Insurance Company of Illinois, SAFECO Insurance Company of Pennsylvania, SAFECO Surplus Lines Insurance Company, SAFECO Lloyds Insurance Company by General America Corporation of Texas, American States Insurance Company, American States Preferred Insurance Company, American Economy Insurance Company, American States Insurance

Company of Texas, Insurance Company of Illinois, American States Lloyds Insurance Company by General America Corporation of Texas, American States Financial Corporation, GSL Corporation, General America Corporation, SAFECO Credit Company, Inc., General America Corporation of Texas, and SAFECO Insurance Company of Pennsylvania.

Effective: August 1, 1990

Amended: February 28, 2000

Terms: This agreement provides that effective January 1, 1989, a United States consolidated income tax return will be filed by SAFECO Corporation for each taxable year the Company is a member of the affiliated group. The tax liability or refund due from or to each member of the affiliated group will be computed as if each member filed a separate stand-alone Federal return. All payments required pursuant to this agreement shall be made to SAFECO Corporation in thirty days of receiving notice of such payment.

4. Type: Expense Sharing Agreement

Parties: SAFECO Insurance Company of America, General Insurance Company of America, First National Insurance Company of America, **SAFECO National Insurance Company**, SAFECO Insurance Company of Illinois, SAFECO Insurance Company of Pennsylvania, SAFECO Surplus Lines Insurance Company, SAFECO Life Insurance Company, SAFECO National Life Insurance Company, First SAFECO National Life Insurance Company of New York, American States Insurance Company, American States Preferred Insurance Company, American Economy Insurance Company, American States Insurance Company of Texas, American States Life Insurance Company, Insurance Company of Illinois.

Effective: March 15, 2001

Terms: Under this agreement SAFECO National Insurance Company agrees to share on an actual cost basis in the allocation of payroll expenses, real property and other costs and expenses. The allocable share of expenses will be determined by methods pursuant to uniform accounting instructions for uniform classification of expenses of Fire-Marine-Casualty-Surety Insurers adopted by the National Association of Insurance Commissioners and/or generally accepted accounting practices.

FIDELITY BOND AND OTHER INSURANCE

SAFECO National Insurance Company is a named insured, along with other subsidiaries of SAFECO Corporation, on a financial institution bond providing fidelity and computer crime coverage with a single loss liability limit of $3,000,000. According to the NAIC guidelines, this coverage complies with the suggested minimum fidelity insurance.

The Company is also a named insured on various other policies purchased by SAFECO Corporation, which include property coverage, general liability, automobile liability, umbrella liability, errors and omission, directors and officers liability and workers' compensation.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

SAFECO National Insurance Company has no employees. The Company along with other affiliated entities are allocated their respective share of related salary and employee benefit expenses pursuant to an expense sharing agreement and a intercompany reinsurance agreement (see the Intercompany Transactions and Reinsurance sections, respectively for a description of these agreements).

A variety of benefits are provided to the employees of SAFECO Insurance Company of America which include, but are not limited to, medical, group term life insurance, short-term and long-term disability coverage, savings and profit sharing plans and a retirement plan. It appears that adequate provisions were made in the Company's financial statements with regards to its obligations for pension, stock ownership and insurance plans' benefits.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2000, as reflected below, were sufficient in par and market value to meet the deposit requirement for the State of Missouri in accordance with RSMo Section 376.290, (Trust deposits).

Type of Security	Par Value	Market Value	Statement Value
U.S. Treasury Bonds	$ 3,425,000	$ 3,703,846	$ 3,496,855

Deposits with Other States

The Company also has funds on deposit with various other states. Those funds on deposit as of December 31, 2000, were as follows:

State	Type of Security	Par Value	Market Value	Statement Value
Arkansas	U.S. Treasury Note	$ 695,000	$ 697,377	$ 695,648
Georgia	U.S. Treasury Note	210,000	221,441	225,583
Louisiana	U.S. Treasury Note	21,700,000	23,566,014	24,055,432
Nevada	Special Revenue Bond	110,000	115,993	118,162
New Mexico	U.S. Treasury Notes	205,000	205,701	205,191
Virginia	U.S. Treasury Note	60,000	60,128	60,620
Total		$ 22,980,000	$ 24,866,654	$ 25,360,636

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the Missouri Department of Insurance under Chapter 379 RSMo, (Insurance other than life), to write property and casualty insurance. As of December 31, 2000, the Company was licensed in thirty-one of the fifty states and was qualified as a non-admitted carrier in the state of Washington.

The Company's direct written lines of business are fire, allied lines, commercial multiple peril, inland marine, medical malpractice (occurrence and claims-made), earthquake, other liability (occurrence and claims made), private passenger auto liability, auto physical damage, burglary and theft and boiler and machinery. As of December 31, 2000, private passenger auto liability and auto physical damage represented approximately 49.4 percent and 43.9 percent of direct written premiums, and approximately 21.4 percent and 19.4 percent of net written premiums, respectively. All direct business is ceded 100 percent to an affiliated entity, SAFECO Insurance Company of America, which also assumes business from other SAFECO property and casualty insurance companies pursuant to an intercompany reinsurance agreement. Under the current Intercompany Reinsurance Agreement, SNIC assumes its share of all lines of business, with the exception of mortgage guaranty, group and credit accident and health and credit. These lines of business are not written by any of the SAFECO property and casualty insurance companies. As of December 31, 2000, the cession of business assumed by the Company under the Intercompany Reinsurance Agreement resulted in net written premiums representing 33.9 percent of lines of business not directly written by the Company. Additional information regarding the Company's current reinsurance program is detailed in the "Reinsurance" section of this examination report.

As of December 31, 2000, more than 70 percent of the Company's direct premiums were written in Arizona, Illinois, New York, Ohio, Tennessee and Washington. The Company utilizes the SAFECO property and casualty insurance companies' network of approximately 7,000 independent agents and agencies to market its products.

Policy Forms & Underwriting; Advertising & Sales; Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate market conduct report. The most recent Missouri Department of Insurance Market Conduct Examination Report was dated July 20, 2000, and covered the period from July 1, 1998, to June 30, 1999. This report addressed a range of market conduct conditions and affairs surrounding the Company and various other SAFECO property and casualty insurance companies. Numerous violations that appear to have an immaterial impact on the financial condition of the Company were discussed in this report.

REINSURANCE

General

Premiums written and the reinsurance activity for the period under examination were as follows:

	1996	1997	1998	1999	2000
Direct Premiums	$ 90,252,026	$ 108,797,880	$ 108,015,481	$ 70,195,280	$ 50,361,944
Reinsurance Assumed	46,261,463	49,063,281	85,132,777	89,555,432	90,553,692
Reinsurance Ceded	(90,252,026)	(108,797,880)	(108,015,481)	(70,195,280)	(50,361,944)
Net Premiums Written	$ 46,261,463	$ 49,063,281	$ 85,132,777	$ 89,555,432	$ 90,553,692

Pooling

SNIC, along with eight other insurance subsidiaries of SAFECO Corporation are parties to an Intercompany Reinsurance Agreement, effective January 1, 1998. Under the terms and conditions of this agreement, each subsidiary or pool member is required to cede 100 percent of its direct and assumed business to the lead insurer, SAFECO Insurance Company of America, and receive a predetermined portion of the subsequent redistribution of the net pooled business. In addition to the companies that are a party to the above Intercompany Reinsurance Agreement, the following seven insurance subsidiaries of SAFECO Corporation are required under separate reinsurance agreements to cede 100 percent of its direct and assumed business to the intercompany pool and receive a zero percent participation in the subsequent redistribution of the net pooled business: SAFECO Surplus Lines Insurance Company, SAFECO Lloyds Insurance Company, SAFECO Insurance Company of Pennsylvania, SAFECO Insurance Company of Oregon, Insurance Company of Illinois, American States Insurance Company of Texas and American States Lloyds of Insurance Company.

SAFECO Insurance Company of America is responsible for securing external reinsurance on behalf of the entire pooled business and redistributing the net retained pooled business to each participant in accordance with the participation percentages stipulated in the Intercompany Reinsurance Agreement. At December 31, 2000, the following pool members or participants retained the respective percentage of the net pooled business:

Participating Company	Percentage
SAFECO Insurance Company of America	33%
General Insurance Company of America	23%
First National Insurance Company of America	2%
SAFECO National Insurance Company	**2%**
SAFECO Insurance Company of Illinois	5%
American States Insurance Company	19%
American Economy Insurance Company	14%
American States Preferred Insurance Company	2%
Total	100%

SNIC's participation percentage of the net retained pooled business in years 1996 and 1999 was also 2 percent.

Assumed and Ceded

SNIC only assumes and cedes premiums to the intercompany pool lead insurer, SAFECO Insurance Company of America, pursuant to the above described Intercompany Reinsurance Agreement. No other reinsurance agreements are currently in-force.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

Independent Auditor

The consolidated financial statements of SAFECO Corporation and its subsidiaries were audited annually by Ernst & Young LLP, Certified Public Accountants, of Seattle, Washington for the period being examined.

Independent Actuary

In each of the years under examination, the actuarial assumptions and methods used by the Company in determining losses, loss adjustment expenses and other related actuarial items were reviewed and certified by Robert H. Wainscott, FCAS, MAAA, of Ernst & Young, LLP of Chicago, Illinois.

Consulting Actuary

The methods and assumptions utilized on a consolidated pooled basis by SAFECO Insurance Company of America and its affiliates in establishing losses, loss adjustment expenses and other related actuarial items were reviewed by the state of Washington's Office of Insurance Commissioner internal actuary, D. Lee Barclay, FCAS, MAAA, ARM.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2000, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

ASSETS

	Ledger Assets	Non-ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 135,142,557	$ (699,575)	$ -	$134,442,982
Common stock	6,374,104	26,429,394	-	32,803,498
Cash & short term investments	3,248,225	-	-	3,248,225
Receivable for securities	110,236	-	-	110,236
Premiums and agents' balances in course of collection	4,379,101		914,936	3,464,165
Premiums, agents' balances and installments booked but deferred	15,195,653	-	-	15,195,653
Accrued retrospective premiums		91,258		91,258
Federal income tax recoverable and interest thereon	-	496,074	-	496,074
Guaranty funds receivable or on deposit	16,713		16,713	-
Interest, dividends and real estate due and accrued	-	2,230,954	-	2,230,954
Aggregate write-ins for other than invested assets:				
Accounts receivable-other	33,604		33,604	-
Net adjustments in assets due to foreign exchange	(32,833)	32,833		-
Total Assets	$ 164,467,360	$ 28,580,938	$ 965,253	$192,083,045

LIABILITIES, SURPLUS AND OTHER FUNDS	
Losses	$ 76,806,036
Loss adjustment expenses	17,608,158
Contingent commissions and other similar charges	1,831,634
Other expenses	2,329,152
Unearned premiums	35,412,234
Dividends declared and unpaid: Policyholders	508,365
Amounts withheld or retained by company for account of others	1,163,123
Payable to parent, subsidiaries and affiliates	232,055
Aggregate write-ins for liabilities:	
Accounts payable	1,028,497
Postretirement benefits	2,170,872
Total Liabilities	$ 139,090,126
Common capital stock	$ 2,500,000
Gross paid in and contributed surplus	21,000,000
Unassigned funds (surplus)	29,492,919
Surplus as regards policyholders	$ 52,992,919
Total Liabilities and Surplus	$ 192,083,045

UNDERWRITING AND INVESTMENT EXHIBIT

UNDERWRITING INCOME		
Premiums earned	$	91,028,515
Losses incurred		64,305,171
Loss expenses incurred		11,093,992
Other underwriting expenses incurred		26,341,392
Total underwriting deductions		101,740,555
Net underwriting gain or (loss)	**$**	**(10,712,040)**
INVESTMENT INCOME		
Net investment income earned	$	10,001,775
Net realized capital gains or (losses)		(211,127)
Net investment gain or (losses)	**$**	**9,790,648**
OTHER INCOME		
Net gain or (loss) from agents' or premium balances charged off	$	(61,938)
Finance and service charges not included in premiums		374,781
Total other income	**$**	**312,843**
Net income before dividends to policyholders and before federal & foreign ta		(608,549)
Dividends to policyholders		189,084
Net income after dividends to policyholders and before federal & foreign tax		(797,633)
Federal and foreign income taxes incurred		(2,312,503)
Net income	**$**	**1,514,870**

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus, December 31, 1999	$ 64,316,650
Net income	1,514,870
Change in net unrealized capital gains or (losses)	2,310,056
Change in non-admitted assets	(109,515)
Change in foreign exchange adjustment	(7,722)
Dividends to stockholders (cash)	(6,000,000)
Examination Changes to Loss & LAE Reserves	(9,031,420)
Net change in capital and surplus for the year	$ (11,323,731)
Capital and surplus, December 31, 2000	$ 52,992,919

NOTES TO FINANCIAL STATEMENTS

Note 1 – Loss and Loss Adjustment Expenses

The reserves carried by the combined property and casualty companies of the SAFECO Group for these liabilities were $3,482,472,780 and $786,665,886, respectively, as of December 31, 2000.

The reserves for the combined companies were reviewed by the casualty actuarial staff employed by the Office of Insurance Commissioner (OIC), State of Washington. The actuarial staff selected several lines of business, comprising approximately 59% of the companies' gross loss and loss adjustments expense reserves, for detailed review. Company personnel provided loss and loss adjustment expense data for these lines of business as of June 30, 2002 (in other words, the data included 18 months of development subsequent to the examination period). Company personnel also provided additional information by electronic mail and in several face-to-face meetings. The actuarial staff also reviewed actuarial reports and Statement of Actuarial Opinion prepared by the companies' Board of Directors appointed actuary with the companies' external audit firm, Ernst & Young LLP.

The OIC's actuarial staff concluded from their analysis that the companies' booked reserves, particularly for the workers compensation and general liability lines of business, were deficient as of December 31, 2000, based on their analysis of data through June 30, 2002. Since December 31, 2000, the companies have taken significant steps to strengthen their loss and loss adjustment expense reserves for 2000 and prior years.

These steps are reflected, in part, in the one year loss development of $339,274,000 shown on Page 23 of the combined companies' Annual Statement for 2001.

The OIC instructed its domiciliary companies to continue to strengthen their loss and loss adjustment expense reserves in compliance with RCW 48.12.030(2). The Missouri Department of Insurance makes a similar recommendation for SAFECO National Insurance Company to continue to strengthen its reserves.

The OIC's actuarial staff recommended the following examination adjustments to the reserves as of December 31, 2000, on a combined-companies' basis:

	Booked Reserve	Examination Adjustment	Restated Reserve
Losses	$3,482,472,780	$357,829,000	$3,840,301,780
Loss Adj. Expenses	786,665,886	93,742,000	880,407,886

Therefore, SAFECO National Insurance Company's adjustments for their percentage of the pool as of December 31, 2000, would be as follows:

	Booked Reserve	Examination Adjustment	Restated Reserve
Losses	$69,649,456	$7,156,580	$76,806,036
Loss Adj. Expenses	15,733,318	1,874,840	17,608,158

EXAMINATION CHANGES

Total Surplus Per Company, December 31, 2000:

Common capital stock	$ 2,500,000	
Gross paid in and contributed surplus	21,000,000	
Unassigned funds (surplus)	38,524,339	
Total Capital and Surplus Per Company		**$62,024,339**

	Increase In Surplus	Decrease In Surplus	
Assets:	$ -0-	$ -0-	
Liabilities:			
Losses		7,156,580	
Loss Adj. Expenses		1,874,840	
Totals	$ -0-	$ 9,031,420	(9,031,420)

Total Surplus Per Examination, December 31, 2000:

Common capital stock	$ 2,500,000	
Gross paid in and contributed surplus	21,000,000	
Unassigned funds (surplus)	29,492,919	
Total Capital and Surplus Per Company		**$52,992,919**

GENERAL COMMENTS AND/OR RECOMMENDATIONS

Conflict of Interest **Page 8**

A review of the conflict of interest statements for the period under examination indicated that several officers and members of the board of directors consistently failed to complete and sign conflict of interest statements from 1996 through 1999. The Company is directed to develop adequate procedures and controls to ensure that all directors, officers and key employees complete and sign on an annual basis a conflict of interest disclosure statement.

SUBSEQUENT EVENTS

The Company, along with affiliated members of the SAFECO Property and Casualty Group intercompany reinsurance pool, strengthened reserves on current losses in the third quarter 2001. This resulted in approximately $4.8 million of additional losses for the Company. Surplus as regards policyholders declined by eleven percent, from $62 to $55 million during the same period.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers of SAFECO National Insurance Company and the employees of SAFECO Insurance Company of America during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, Shannon Schmoeger, CFE and Bernie Troop, AFE examiners for the Missouri Department of Insurance, participated in this examination. The methods and assumptions utilized on a consolidated pooled basis by SAFECO Insurance Company of America and its affiliates in establishing losses, loss adjustment expenses and other related actuarial items were reviewed by the state of Washington's Office of Insurance Commissioner internal actuary, D. Lee Barclay, FCAS, MAAA, ARM.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Derek Butler, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

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Derek Butler, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this ____ day of _________________________.
My commission expires:

______________________ ____

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

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Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance8